CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

MERCANTILE STORES COMPANY, INC.

ANNUAL REPORT

JANUARY 31ST, 1941

CLEVELAND PUBLIC LIBRARY
BUSINESS SCIENCE & INDUSTRY DEPARTMENT

15 Exchange Place,
Jersey City, New Jersey,
April 14, 1941.

To the Stockholders of
Mercantile Stores Company, Inc.:

The consolidated balance sheet as of January 31, 1941, and consolidated profit and loss and surplus accounts for the year ending that date of your Company and its subsidiaries are submitted herewith.

The net profit after all taxes for the year amounted to $661,443.47 against the previous year's profit of $202,586.95. The profit before Federal income taxes for the year amounted to $939,991.02, which is the largest profit before taxes and non-recurring income since the year 1927. This year's profit is equivalent to $4.28 per share of common stock in the hands of the public at the end of the year as compared with $1.11 per share for the preceding year.

The sales for the year increased 6.8%, from $27,619,565.84, to $29,509,394.68.

Inventories were slightly higher than last year, but the rate of inventory turnover increased from 5.75 last year to 6.33 this year. The management continues to follow a conservative inventory policy, but market conditions have made it necessary to anticipate purchases, and the turnover will probably be considerably lower this year.

The Company spent $533,000.00 for new fixtures and other equipment during the past year, which is $180,000.00 more than it charged to depreciation. The management intends to continue and possibly extend its policy of modernization.

The only remaining real estate mortgage amounting to $37,333.24 was liquidated during the year.

The ratio of current assets to current liabilities on January 31, 1941 was 4.2 to 1.

Preferred Stock dividends of $7.00 per share were paid during the year, amounting to $41,732.25. Two dividends of $1.00 per share each were paid on the common stock. This amounted to $289,612.00.

At the beginning of the current year a deficit of $255,372.93 existed in the account reflecting earned surplus since February 1, 1935. During the current year this deficit was eliminated and a surplus of $74,726.29 remained after payment of the dividends.

The management believes that the accounts receivable are in a satisfactory condition. The conservative policy of taking bad debt losses promptly has been continued, and a liberal reserve has been maintained.

The management desires to express its sincere appreciation of the loyalty and cooperation of the Company's employees.

By Order of the Board of Directors

F. G. KINGSLEY
President.

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AND SUBSIDIA

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 1,582,371.21
Customers' accounts receivable—		
Regular retail terms	$2,336,227.63	
Installment terms, including installments maturing after one year	1,472,450.09	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $1,840,574.14 at January 31, 1941)	400,000.00	
	$4,208,677.72	
Less—Reserves for doubtful accounts (including reserves applicable to accounts sold)	712,366.34	3,496,311.38
Due from suppliers, etc.		109,152.84
Merchandise inventories, priced on the basis of cost or market, whichever is lower, as determined by the retail inventory method		2,922,535.83
TOTAL CURRENT ASSETS		$ 8,110,371.26
OTHER ASSETS:		
United States Government securities deposited in escrow as guarantee of performance under a lease—at cost (quoted market value, $108,250.00)	$ 103,968.74	
Miscellaneous securities	53,962.37	157,931.11
FIXED ASSETS:		
Land and buildings owned, buildings on leased ground, and leaseholds (property of a net book value of $254,138.33 is pledged to secure performance under a lease)—at cost, less reserve for depreciation of $2,245,287.90	$4,474,927.38	
Store fixtures—at cost, less reserve for depreciation of $1,245,695.64	1,308,595.78	
Delivery equipment—at appraised values as determined by the management	42,994.11	
	$5,826,517.27	
Land and buildings not used in store operations—at cost, less reserve for depreciation of $42,499.53	210,543.33	6,037,060.60
UNEXPIRED INSURANCE PREMIUMS, PREPAID EXPENSES, ETC.		181,152.89
		$14,486,515.86

NOTES:

(1) Surplus of $656,601.60 is restricted by reason of purchase of treas

(2) During the current year the companies adopted the policy, with with the full amount of installment contracts, including carryin contracts. Prior to the adoption of this policy, carrying charg for installment accounts arising prior to the change in policy.

(3) The companies are contingently liable on customers' notes discou damages, etc., which, in the opinion of counsel for the Compa

ES COMPANY, INC.

corporation)

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SHEET—JANUARY 31, 1941

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable		$ 1,214,704.10
Accrued taxes (other than Federal income), salaries and rent		381,219.33
Preferred stock dividend payable February 15, 1941		10,158.75
Reserve for Federal income taxes, subject to review by U. S. Treasury Department		312,400.00
Reserve for conversion of net current assets of Canadian subsidiary		33,300.00
TOTAL CURRENT LIABILITIES		$ 1,951,782.18
RESERVES:		
For Federal income tax which may be payable in future years on gross profit deferred for Federal income tax purposes	$ 51,000.00	
For redemption of trading stamps issued prior to 1937	53,835.56	104,835.56
DEFERRED CARRYING CHARGES ON INSTALLMENT ACCOUNTS (Note 2)		136,579.70
CAPITAL STOCK AND SURPLUS:		
Capital stock—		
Preferred stock—7% cumulative, $100 par value—callable at $105—		
Authorized and issued, 10,410 shares (5,805 shares outstanding and 4,605 shares held in treasury)	$ 1,041,000.00	
Common stock—no par value (stated value, $36.66-2/3 per share)—		
Authorized and issued, 158,238 shares (144,756 shares outstanding and 13,482 shares held in treasury)	5,802,060.00	
Surplus prior to February 1, 1935, per attached statement	6,257,633.78	
Earned surplus since February 1, 1935, per attached statement	74,726.29	
	$13,175,420.07	
Deduct—Treasury stock (3,764 shares of preferred and 10,116 shares of common stock, at par or stated value, and 841 shares of preferred and 3,366 shares of common stock, at cost—certain store managers, a vice-president, controller and chief accounting officer were granted options expiring on April 15th, 1942, to purchase an aggregate of 3,200 shares of common stock at $17.64 per share, the price the Company paid for such stock)—		
Preferred stock, 4,605 shares	$451,949.24	
Common stock, 13,482 shares	430,152.41	882,101.65
		12,293,318.42
		$14,486,515.86

ury stock until such stock is sold or canceled.

respect to subsequent installment sales, of charging customers' accounts g charges, and deferring the carrying charge income over the lives of the es were recorded when collected and this practice is still being followed This change had no effect on the net profit for the year.

nted in the amount of $37,276.45, and on certain suits on account of injuries, ny, are covered by insurance.

MERCANTILE STORES COMPANY, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS AND SURPLUS ACCOUNTS

For the Year Ended January 31, 1941

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Net sales (including sales of leased departments)		$29,509,394.68
Cost of goods sold, selling, operating and administrative expenses, exclusive of depreciation		28,514,288.46
		$ 995,106.22
Other Income (Net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net), including insurance recovery of $40,000.00		341,511.20
		$ 1,336,617.42
Deduct:		
Depreciation	$352,617.45	
Interest expense	44,008.95	396,626.40
Net profit before provision for Federal income taxes		$ 939,991.02
Provision for Federal normal income taxes		278,547.55
Net profit carried to earned surplus		$ 661,443.47

SURPLUS PRIOR TO FEBRUARY 1, 1935

Balance, January 31, 1941	$ 6,257,633.78

(No change occurred in this account during the year ended January 31, 1941)

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance (deficit), January 31, 1940		*$ 255,372.93*
Net profit for the year ended January 31, 1941		661,443.47
		$ 406,070.54
Dividends declared:		
Preferred stock—$7.00 per share	$ 41,732.25	
Common stock—$2.00 per share	289,612.00	331,344.25
Balance, January 31, 1941		$ 74,726.29

Italics denote deficit.

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

67 WALL STREET
NEW YORK

TO THE BOARD OF DIRECTORS OF
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1941, and the consolidated profit and loss and surplus accounts for the year ended that date. In connection therewith we have examined or tested accounting records and other supporting evidence of the Company and certain of its more important subsidiaries, without making a detailed audit of the transactions, and have reviewed the system of internal control and the accounting procedures of such companies by methods and to the extent we deemed appropriate; except that, in order to avoid possible unfavorable reception on the part of customers, we have, at the request of the management, omitted, as in prior years, the confirmation of accounts receivable by direct communication with customers.

The total assets of the companies whose records we examined represented 77.41% of the total consolidated assets, and the net sales of such companies represented 68.66% of the total consolidated net sales. The accounts of the subsidiary companies whose records we did not examine are included in the consolidated statements on the basis of Company reports which were reviewed by us.

In our opinion, subject to the exception stated in the first paragraph hereof with respect to confirmation of receivables, and based on our review of Company reports on unaudited subsidiary companies, the accompanying consolidated balance sheet and related consolidated profit and loss and surplus accounts fairly present the financial position of the companies at January 31, 1941, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles which, except for the change in the treatment of deferred carrying charges described in Note 2 to the balance sheet, have been maintained by the companies on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
April 4, 1941.